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SUBJECT: NICARAGUA: COMMERCE U/S PADILLA HIGHLIGHTS CAFTA-DR

REFS: A. MANAGUA 0254, B. MANAGUA 0225, C. 07 MANAGUA 1865

#### Summary and Introduction

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¶1. (SBU) During his February 28, 2008, visit to Nicaragua, Undersecretary of Commerce for International Trade Christopher A. Padilla emphasized the importance of the United States - Central America - Dominican Republic Free Trade Agreement (CAFTA-DR) to our bilateral relationship. U/S Padilla toured a U.S.-owned textile mill that takes advantage of CAFTA-DR to weave denim from U.S.-grown cotton, and he heard from other U.S. businesses on challenges in the apparel sector. U/S Padilla and Nicaraguan Minister of Trade, Industry, and Development (MIFIC) Orlando Solorzano participated in several media events that marked the only instances since Ortega took office where a senior Nicaraguan official has provided public support for the agreement. With Nicaraguan business leaders, U/S Padilla exchanged views on competitiveness and on private sector efforts to strengthen democracy (Ref A). In meetings with MIFIC and President Ortega, U/S Padilla discussed a number of trade issues. U/S Padilla also cautioned Ortega that his harsh rhetoric has a negative impact on the perception of Nicaragua in the minds of U.S. investors. However, Ortega's strong ideological beliefs and desire to play to domestic and international audiences with criticism of the United States make it likely that his rhetoric will continue, to the detriment of the investment climate.

#### Promoting CAFTA-DR

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¶2. (SBU) During his visit, U/S Padilla publicly described CAFTA-DR as the core of our bilateral economic relationship. He noted that since the agreement went into effect on April 1, 2006, Nicaragua has benefited more than any other CAFTA-DR country. Nicaraguan exports to the United States have increased from \$1.18 billion in 2005 to \$1.61 billion in 2007, a 36% increase according to USITC data. Some industries have seen even higher growth. For example, exports of fruits and vegetables are up 59% from 2005 to 2007, and exports of meat are up 42%.

¶3. (U) Minister Solorzano joined U/S Padilla to tour an exhibition of Nicaraguan businesses and agricultural producers that are benefiting from CAFTA-DR. Among those represented were an organic coffee grower and an exporter of high quality seafood. Producers told U/S Padilla and Minister Solorzano about rising sales of sesame seeds, cassava, okra, and melons thanks to CAFTA-DR. Companies exhibiting jellies, jams, and processed fruit pulp demonstrated the potential Nicaragua has to add value to its agricultural exports. Extensive press coverage of the exhibition, press conference, and subsequent remarks at a lunch hosted by AmCham highlighted Nicaragua's success in creating jobs, thanks to increased trade with the United States.

¶4. (SBU) In a late-evening meeting, President Ortega complained that CAFTA-DR has not really resulted in free trade, citing as evidence

the safeguard measure the United States may implement for Honduran socks. In trade agreements between developed and less-developed countries, "the developed country can impose its will whenever it pleases," according to Ortega. He asserted these asymmetries can only be resolved through agreements that focus on "fair trade." Ortega suggested that we need to maintain an open dialogue on trade issues "to make changes to CAFTA-DR as needed." In response, U/S Padilla cautioned Ortega that U.S. domestic politics would likely complicate any renegotiation of CAFTA-DR.

15. (SBU) Comment: The Ortega administration focuses on the Venezuelan-sponsored Bolivarian Alternative for the Americas (ALBA) to the exclusion of CAFTA-DR, despite the fact that trade with ALBA countries is almost negligible and trade with the United States totals nearly \$2.5 billion in 2007. At least for a few days, U/S Padilla's visit helped to focus attention on the benefits of CAFTA-DR and private-sector-led growth. Minister Solorzano's participation in our trade exhibition, press conference, and further remarks at AmCham's lunch are the only instances since Ortega took office where a senior Nicaraguan official has provided public support for CAFTA-DR. Ortega appears to have accepted U/S Padilla's counsel on renegotiating CAFTA-DR; in a March 3 meeting with representatives of the dairy industry, he repeated U/S Padilla's description of U.S. trade politics point for point. End comment.

#### Textiles and Apparel Trade Issues

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16. (U) Nicaraguan exports of textiles and apparel have increased by 35% since CAFTA-DR was implemented, from \$716 million in 2005 to \$968 million in 2007. Emblematic of the growth of this industry is International Textile Group's (ITG) \$100 million investment in a state-of-the-art textile mill, which will produce denim fabric from cotton grown in the United States. U/S Padilla toured the plant, which employs 850 Nicaraguans and is already producing denim fabric for apparel manufacturers in Nicaragua and throughout Central America.

17. (SBU) After the tour, U/S Padilla and Deputy Assistant Secretary for Textiles and Apparel Matthew Priest met with ITG's general manager and representatives of U.S. apparel manufacturers. They discussed issues facing the sector, including difficulties with tariff preference levels (TPLs) of 100 million square meter equivalents (SMEs) for the use of third-party fabric. Apparel manufacturers noted that the one-for-one agreement, requiring the use of U.S. fabric to qualify for TPLs, is problematic, because U.S. sources are dwindling and the cost of their fabric is rising. They suggested that counting fabric made in Nicaragua from U.S. cotton as U.S. sourced fabric may be a solution. They also noted that recent wage increases -- the Ortega administration raised textile workers' minimum wages by 36% in a six-month span -- are having a negative impact on Nicaraguan competitiveness in this price sensitive industry.

18. (SBU) At a separate meeting with Nicaraguan officials led by MIFIC, Executive Director of the Free Trade Zone Commission (FTZC) Alfredo Colonel echoed the concerns of the private sector on meeting the one-for-one requirement. In both meetings, U/S Padilla and DAS Priest agreed to carefully evaluate any one-for-one shortfall for 2007 and consider the proposal that fabric made from U.S. cotton in Nicaragua count toward the one-for-one requirement. They were careful to note that current domestic political considerations made it difficult to renegotiate the agreement to address this political issue.

#### Trade Agreement Implementation

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19. (SBU) U/S Padilla discussed a number of other trade issues with Minister Solorzano, Executive Director of the FTZC Alfredo Colonel, and ProNicaragua Executive Director Javier Chamorro. Solorzano voiced concern with U.S. legislation to raise the excise on tobacco products, a measure that President Bush vetoed for unrelated reasons in September 2007. For cigars in particular, MIFIC officials view the excise as a potential trade barrier, because nearly all hand-made cigars are imported into the United States; they believe such a tax violates CAFTA-DR (Ref C). Solorzano complained that Nicaraguans are unable to sell "rosquillas" (Central American

biscuits) in New York State because a Salvadoran firm has trademarked the term "rosquillas." Finally, Solorzano noted Nicaragua's interest in meeting its IPR commitments under CAFTA-DR, particularly those related to test data protection and patent linkage (Ref B). On all of these issues, U/S Padilla indicated that the United States will work closely with Nicaragua to ensure that CAFTA-DR works for both Nicaragua and the United States.

#### Delivering the Message on Harsh Rhetoric

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¶10. (SBU) In his meetings throughout the day, U/S Padilla recognized Nicaragua's efforts to attract \$617 in foreign investment since implementing CAFTA-DR. U/S Padilla made clear the importance of additional investment to build on this early success. He cautioned his Nicaraguan interlocutors, including President Ortega, that potential investors have a negative perception of Nicaragua because of the president's harsh rhetoric concerning "global capitalism" and the United States. He suggested that the government deliver a consistent, supportive message to foreign investors emphasizing Nicaragua's respect for democracy and free markets. Padilla also explained the importance that investors place on a predictable political environment so they may make informed investment decisions.

¶11. (SBU) President Ortega voiced his belief that inexpensive labor is what foreign investors want. Nicaragua has cheap labor, and that, in addition to a low crime rate, is why investors are interested in locating here, according to Ortega. Padilla countered that investors seek more than low wages; they look for a stable political climate and strong rule of law, and these factors would be important for Nicaragua's efforts to attract investment. But Ortega dismissed U/S Padilla's warning that harsh rhetoric may be scaring away investors, claiming that rhetoric among politicians in the U.S. Congress is worse. We note that just before his meeting with U/S Padilla, in an event with the National Police, Ortega accused foreign investors in free trade zones of exploiting Nicaraguan labor and plundering the Nicaraguan economy. He again railed against capitalism and neoliberalism for making the poor poorer and the rich richer and called the current capitalist economic system unsustainable.

¶12. (SBU) Comment: U/S Padilla's message to Ortega on the consequences of harsh rhetoric toward the United States and "global capitalism" appears to have had little immediate impact; for example, on March 7, Ortega labeled the United States a supporter of state-sponsored terrorism. We doubt that Ortega will jettison his strong ideological beliefs when it comes to capitalism. For example, in October 2007, Ortega cited Lenin extensively on the floor of the National Assembly simply to make a point on government debt. This mindset, together with his desire to play to domestic and international audiences by criticizing the United States, means that Ortega's rhetoric will likely continue. Nonetheless, it remains important for us to continue to reinforce U/S Padilla message on the damaging consequences of this rhetoric to the investment climate. End comment.

¶13. (U) U/S Padilla cleared this cable.

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